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Report Highlights:

Corn and sorghum area is expected to fall sharply again next year (local marketing year 2003/2004) as area shifts into wheat and oilseed production. Chemical input use is expected to fall, despite increased profitability from the devaluation, largely due to credit problems and economic uncertainty. The Argentine Government is considering increasing the export tax on grains to 20 percent.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Buenos Aires [AR1], AR

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Executive Summary

Argentina is currently undergoing a severe economic crisis following its exit from a fixed exchange rate regime (one US dollar equaled one peso for 10 years) and government default on its debt in January 2002. The economic crisis and devaluation had a relatively small impact on production of this year's grain crops, which are currently being harvested (corn, grain sorghum and rice) or were largely harvested by the beginning of January (wheat), but are expected to have major implications for next year's crops.

At this stage, estimating production for next year is very preliminary, with government policies still being defined. The devaluation has increased the profitability of agricultural production, but the imposition of export taxes (currently 10 percent for grains, but likely to increase to 20 percent), severe problems in the financial system and uncertainty about future government policies have decreased the prospects for a large increase in grain production next year. Local contacts generally expect land to move into wheat and oilseed production, with lower use of purchased inputs such as fertilizer and pesticides.

Section I. Situation and Outlook

The devaluation of the Argentine peso after 10 years of being fixed to the US dollar (one-to-one), has significantly improved the profitability of exportable agricultural products such as grains and oilseeds. The Argentine peso has rapidly devalued since the start of January, with the peso currently trading at approximately 2.8 pesos for 1 US dollar. While costs of many inputs have gone up in price, grain producers are currently much more cost competitive than prior to the devaluation. Preliminary analysis indicates that returns per hectare for grain production are at least US\$ 50 per hectare higher than prior to the devaluation, even factoring in the export tax of 10 percent announced on March 4.

The economic crisis that forced the devaluation and changes in government policy have, however, greatly complicated the situation for Argentine grain producers and exporters. The government is reportedly planning to increase the current 10 percent tax on grain exports (5 percent for processed products such as wheat flour and meat) to 20 percent for grains and some processed products such as wheat flour. Credit is also a major problem, with the bank sector largely shut down by the ongoing crisis and input suppliers, previously the major source of credit, likely to restrict credit due to problems in collecting from producers the approximately US\$ 3 billion loaned to the agricultural sector.

Wheat

Wheat area is expected to increase for the 2002/2003 crop, which will start to be planted in June, but use of chemical fertilizer is expected to fall due to lack of credit and the uncertain economic situation. Farmers in northern Argentina were disappointed by the low yields this year, but are expected to plant the same area in a double crop rotation with soybeans mainly for cash flow reasons, i.e. to have cash available in December to cover financial needs, such as to purchasing pesticides and fertilizer for the main row crops. The increase in area is mainly expected in the main wheat growing areas of southern Argentina.

Post estimates an increase in planted area to 7.4 million hectares (up 3 percent), while harvested area will increase even more from this year's relatively high abandonment level to 7.2 million hectares. Yields are expected to increase slightly from this year's low level, but remain relatively low due to the reduced use of inputs. Total production is projected at

17 million tons.

Despite the economic turmoil, exports thus far in the 2001/2002 marketing year are almost equal to last year at this time, although overall exports are expected to decline due to lower production. Area planted increased to 7.1 million hectares, but heavy rains and damage from fungal diseases reduced both yields and area abandoned.

Export sales commitments for this year's crop were 8.46 million tons as of March 22, 2002, with only 3.9 million tons committed for Brazil. Export sales commitments to other destinations total, 4.56 million tons. Most of the remaining exports for this year's wheat crop are expected to go to Brazil, which in recent years has taken between 6 and 7 million tons of Argentine wheat annually.

Post has revised upward its estimates of consumption on the basis of Argentine government statistics for wheat milling (see Section III for additional details).

Feed Grains

Area planted to corn and sorghum is expected to fall sharply once again next year (local marketing year 2003/2004), with corn production projected to fall to 9 million tons (down 3.5 million from this year's relatively small crop). The projected decrease is largely explained by the new export tax on corn and the high cost of corn production relative to soybeans. Cash costs for producing corn are around US\$200 per hectare, while cash costs for producing soybeans are under US\$ 100 per hectare. In addition, most soybeans are exported in the form of meal and oil which pay a lower export tax (at least for now). With credit extremely tight, producers are reportedly planning to shift more area into soybeans.

For the corn crop currently being harvested, we are increasing our estimate of harvested area (up 150,000 hectares to 2.3 million hectares) and production (increased 500,000 tons to 12.5 million tons) due to an expected decrease in the area cut for silage and reports of good yields from the corn harvested thus far. Under normal conditions, an estimated 15 to 20 percent of all corn area is cut for silage to feed to dairy cattle. Extremely low prices for milk, however, are expected to increase the area harvested for grain.

Rice

Area planted to rice is expected to bounce back somewhat from the currently low area, to reach 130,000 hectares in 2003/2004. The devaluation has increased the profitability of planting rice, although problems getting credit to finance the relatively high cost of producing rice will make a large increase in area unlikely. Established producers in the main rice growing region in Corrientes are expected to increase area (producers in this area are closely connected to the large Brazil market), while rice farmers that switched to soybeans in recent years are expected to continue planting soybeans.

Section II. Statistical Tables

Table 1: PSD Wheat

PSD Table						
Country	Argentina					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		12/2000		12/2001		12/2002
Area Harvested	6392	6408	6800	6825	0	7200
Beginning Stocks	300	612	725	555	550	565
Production	16500	16230	15700	15500	0	17000
TOTAL Mkt. Yr. Imports	25	7	25	10	0	10
Jul-Jun Imports	25	7	25	10	0	10
Jul-Jun Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	16825	16849	16450	16065	550	17575
TOTAL Mkt. Yr. Exports	11700	11272	11500	10500	0	12000
Jul-Jun Exports	11396	11396	11000	11000	0	11200
Feed Dom. Consumption	300	9	400	10	0	10
TOTAL Dom. Consumption	4400	5022	4400	5000	0	5000
Ending Stocks	725	555	550	565	0	575
TOTAL DISTRIBUTION	16825	16849	16450	16065	0	17575

Table 2: Wheat Milled for Flour (Metric Tons)

Month	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001
December	379,165	363,291	387,003	354,006	357,483
January	392,028	388,939	390,326	360,099	386,078
February	347,429	381,875	355,535	365,611	363,449
March	383,020	419,931	395,926	408,199	388,872
April	411,111	402,160	413,005	368,979	375,330
May	402,207	413,065	423,849	404,574	419,176
June	365,513	417,352	381,302	396,574	410,920
July	440,866	439,188	429,970	414,232	423,919
August	418,637	417,046	372,733	415,817	404,314
September	416,958	398,810	365,603	386,444	375,271
October	408,179	389,435	356,159	355,132	370,481
November	364,854	372,331	359,087	358,259	384,766
Total	4,729,967	4,803,423	4,630,498	4,587,926	4,660,059

Source: Argentine Secretariat of Agriculture

Table 3: Flour and Pasta Exports (Wheat Equivalent)

Product	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001
Flour	525,000	645,000	525,000	511,000	489,000
Wheat Products	26,000	31,000	19,000	11,000	12,000
Total	551,000	676,000	544,000	522,000	501,000

Source: Argentine Customs Statistics (Indec)

Table 4: Wheat Milled for Feed Use (metric tons)

Month	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001
December	2,402	1,471	3,898	9,614	291
January	364	1,777	3,542	11,561	1,136
February	1,296	1,829	3,132	10,099	790
March	587	1,644	1,057	12,810	689
April	702	1,188	595	6,839	562
May	349	866	1,950	8,922	1,248
June	256	686	506	6,748	805
July	383	668	696	6,820	481
August	411	1,133	577	7,924	735
September	339	563	411	419	438
October	666	852	862	386	260
November	469	1,277	5,488	239	1,594
Total	8,224	13,954	22,714	82,381	9,029

Table 5: Total Seed Use in Tons

Year	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001
Seed Use (120kg/ha)	710,280	654,360	756,000	779,640	852,960

Source: Estimated on basis of Argentine Ag. Secretariat area estimates.

Table 6: PSD Corn

PSD Table						
Country	Argentina					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		03/2001		03/2002		03/2003
Area Harvested	2745	2818	2150	2300	0	1800
Beginning Stocks	453	500	458	705	723	300
Production	15500	15400	12000	12500	0	9000
TOTAL Mkt. Yr. Imports	5	5	15	15	0	10
Oct-Sep Imports	5	5	15	15	0	10
Oct-Sep Import U.S.	1	0	0	0	0	0
TOTAL SUPPLY	15958	15905	12473	13220	723	9310
TOTAL Mkt. Yr. Exports	10500	9600	7500	7600	0	3610
Oct-Sep Exports	12229	12146	8500	9000	0	5000
Feed Dom. Consumption	3300	4000	2750	3700	0	3900
TOTAL Dom. Consumption	5000	5600	4250	5320	0	5400
Ending Stocks	458	705	723	300	0	300
TOTAL DISTRIBUTION	15958	15905	12473	13220	0	9310

Table 7: PSD Sorghum

PSD Table						
Country	Argentina					
Commodity	Sorghum				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		03/2001		03/2002		03/2003
Area Harvested	670	602	650	500	0	400
Beginning Stocks	659	58	659	43	609	43
Production	3100	2900	3000	2300	0	1800
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0
Oct-Sep Imports	0	0	0	0	0	0
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	3759	2958	3659	2343	609	1843
TOTAL Mkt. Yr. Exports	450	440	500	500	0	300
Oct-Sep Exports	566	560	450	500	0	300
Feed Dom. Consumption	2550	2375	2450	1600	0	1400
TOTAL Dom. Consumption	2650	2475	2550	1800	0	1500
Ending Stocks	659	43	609	43	0	43
TOTAL DISTRIBUTION	3759	2958	3659	2343	0	1843

Table 8: PSD Rice

PSD Table						
Country	Argentina					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		04/2001		04/2002		04/2003
Area Harvested	133	151	130	120	0	130
Beginning Stocks	137	137	59	60	29	45
Milled Production	487	500	450	410	0	440
Rough Production	749	769	692	631	0	677
MILLING RATE (.9999)	6500	6500	6500	6500	0	6500
TOTAL Imports	15	0	15	10	0	10
Jan-Dec Imports	15	0	15	10	0	10
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	639	637	524	480	29	495
TOTAL Exports	335	335	250	205	0	220
Jan-Dec Exports	350	350	250	200	0	220
TOTAL Dom. Consumption	245	242	245	230	0	230
Ending Stocks	59	60	29	45	0	45
TOTAL DISTRIBUTION	639	637	524	480	0	495

Section III: Supply and Demand, Policy and Marketing

Marketing:

The main futures market located in Buenos Aires (Buenos Aires MAT) has been closed since December 20 as a result of restrictions on financial activities and the devaluation. It is not clear at this point when, or if, the futures market will reopen. The Buenos Aires MAT traded on the basis of US dollars and only recently has the government announced plans to allow the market to continue to operate on the basis of US dollars. Perhaps more important, major changes in the market situation have made it almost impossible to resolve open grain futures contracts for approximately 3.5 million tons.

Exporters have continued to operate throughout the crisis, but are facing serious financial difficulties due to delays in receiving government payments for grain exports. Argentine regulations provide for the reimbursement of value added taxes (VAT), which was 21 percent for grains until recently, for all exports. The government also had in place from June 2001 to February 2002 an export payment of approximately 6 percent for all grain exports.

Government payments totaling up to US\$800 million are currently due to exporters for grain exports over the last 7 months. The government agreed to make the overdue payments in 19 installments, with the first payment due on March 25, 2002. The first payment was reportedly paid to exporters after a 2 day delay, but it is not clear whether the government will be in a financial situation to make future payments.

The government has reduced the value added tax on grain sales to 10.5 percent to reduce future problems with export tax reimbursements and to deal with widespread problems in collecting prior stage taxes. Tax evasion reportedly resulted in the government paying out more in tax reimbursements than the taxes actually paid. Due to doubts about future tax reimbursements, exporters are reportedly withholding payment of 10 percent of the price paid to farmers for current purchases, with this portion only to be paid after they receive the corresponding government tax reimbursement.

The export sector is coming under heavy pressure by the government to repatriate earnings from grain exports and has threatened to withhold payment of tax reimbursements if exporters do not bring dollars into Argentina to support the peso. Heavy rains during March have delayed the harvest and slowed down grain purchases by exporters, but export purchases are expected to increase as the grain and oilseed harvest picks up in April. Due to very limited local credit, exporters generally bring dollars into the country to purchase grain when it is delivered by producers or at planting time to finance input purchases by farmers (with the repayment often set in grain).

Marketing of grain by producers has been somewhat sporadic depending on the current price and their financial needs. Most producers are only selling grain to cover immediate cash needs and to purchase inputs in advance for next year's production. Banking restrictions require receipts from all sales to be deposited in bank accounts, which are then subject to withdrawal limits. The money can be used to pay off debts or make purchases, but can't be withdrawn directly from the bank. Due to the bank restrictions and concerns about the impact of inflation on the value of peso deposits, most producers prefer to store grain, or purchase in advance chemical inputs that will be needed in next year's crop, over holding cash in the bank.

Storage Capacity

The Argentine Government recently released a study on storage capacity in Argentina, which shows installed storage capacity of approximately 57 million tons, which is only just below total grain and oilseed production of 65 million tons in 2001. On farm storage is estimated at 13.8 million tons, with additional temporary storage available through the growing use of large (over one-ton) plastic bags. The study indicates that storage capacity is not a major constraint in Argentina, although lack of credit can limit the options of producers for marketing their grains.

Evolution of Production, Storage and Production/Storage Relation

Crop Year	Production (Million Tons)	Storage Capacity (Million Tons)	Ratio
1985	42.5	31.2	1.36
1995	46.1	46.2	1.00
1998	66.2	48.9	1.35
2001	65.7	57.2	1.15

Source: Statistics on Storage Capacity in the Republic of Argentina, by Ruben Ciani and Mario Garcia, Direction of Agricultural Markets, Argentine Department of Agricultural, December 2001

High Yielding Wheat Varieties:

A large area of wheat was planted to high yield "French" wheat varieties for the first time in marketing year 2000/1999. Marketed under the name "Baguette", early projections were for up to 10 percent of the crop area to be planted to the input intensive, high yielding varieties.

While similar in protein content to traditional Argentine wheat varieties, the milling quality was reportedly below traditional standards. The widespread planting of the new varieties caused concerns in the Argentine grain sector that the overall quality of Argentine wheat (and the price paid) would decrease because of the difficulty in segregating different quality wheats in Argentina.

Concerns about the new variety among local contacts have lessened, largely because both area planted and yields were less than initially projected. The Baguette varieties were apparently more susceptible to fusarium than traditional varieties, which was a major problem this year due to the wet weather. Producers also report that the added cost of using more inputs were often not reflected in significantly higher yields. Local contacts currently expect the area planted to the Baguette varieties to fall when the 2002/2003 wheat crop is planted later this year.

Wheat Consumption and Stocks

We have revised the estimates for wheat consumption and stocks based on Argentine Government estimates for wheat milling and stocks. According statistics published by the Argentine Secretariat of Agriculture, 4.66 million tons of wheat were milled for flour in marketing year 2000/2001. Of this amount, 501,000 tons of flour and pasta (wheat equivalent) were exported. Seed use was an estimated 852,000 tons (estimated at a seeding rate of 120 kg/hectare). Total consumption for 2000/2001 is an estimated 5.02 million tons. (Tables on wheat use for the years 1996/97 to 2000/2001 are included in statistical section.)

Agricultural Credit

Input suppliers are a major source of short term credit for the agricultural sector, with an estimated US\$3 billion (out of input needs of US\$ 4 billion) loaned to producers this crop year. The current economic crisis makes it unlikely at this point that the suppliers will be repaid the full amount, with credit only available next year for producers that pay off credit for this year.

The initial government decision in February to convert all outstanding credit (agricultural and non-agricultural) into pesos at a one-to-one exchange rate has greatly complicated the credit situation. Most input loans were denominated in dollars, so this decision set the stage for major losses by input suppliers.

In a subsequent decision in March, the government announced that all dollar denominated credit will be repaid at "the same exchange rate as the exchange rate for exports of that product", which has cleared the way for input suppliers in the grain sector to receive additional payment. Contacts in the input sector indicate that while the new decision has improved their situation, they are still having difficulty collecting outstanding debts, in part because some farmers are hoping for yet another change in government policy on agricultural credit or do not agree with the input supplier on how to interpret the latest requirement.

Input Availability

The devaluation of the peso and restrictions on payments terms for import purchases have somewhat restricted input availability. Argentina is, however, largely self-sufficient in the production of key agricultural inputs. Argentina now has one of the largest urea fertilizer producing plants in the world and is a net exporter of both petroleum products and fertilizer. Phosphorus fertilizer is, however, imported and may be scarce due to the higher price and government requirements that limit importers to paying 45 days after the imports take place (a restrictive requirement in the current tight credit situation).